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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

OMB APPROVAL
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FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2003 AND ENDING December 31, 2003
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **LaBranche Financial Services, Inc.**

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

120 Broadway - 34th Floor

(No. and Street)

New York,

NY

10271

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

L. Thomas Patterson

212-482-3730

(Area Code) Telephone Number

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

757 Third Avenue

New York,

NY

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

PROCESSED

MAR 23 2004

**THOMSON
FINANCIAL**

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, L. Thomas Patterson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of LaBranche Financial Services, Inc., as of December 31,, 20 03, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

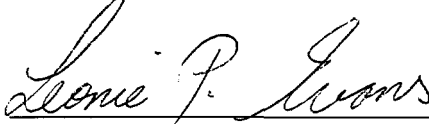
LEONIE P. EVANS

Notary Public, State of New York

No. 01EV6072007

Qualified in Queens County

Commission Expires March 25, 2006


Notary Public


Signature

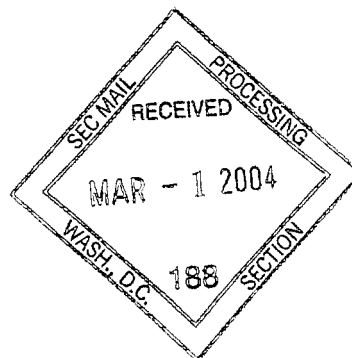
Chief Financial Officer

Title

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**



LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Statement of Financial Condition

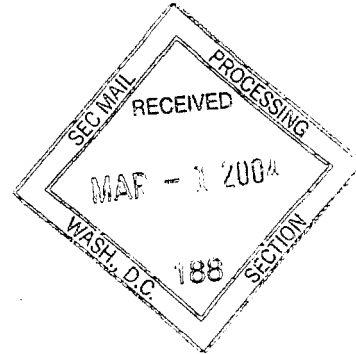
December 31, 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report



The Board of Directors and Shareholder of
LaBranche Financial Services, Inc.:

We have audited the accompanying statement of financial condition of LaBranche Financial Services, Inc. (a wholly owned subsidiary of LaBranche & Co Inc.) as of December 31, 2003. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit of a statement of financial condition includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of LaBranche Financial Services, Inc. as of December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 20, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Statement of Financial Condition

December 31, 2003

Assets

Assets:

Cash and cash equivalents	\$ 7,069,962
Cash and securities, segregated in compliance with federal regulations	3,959,414
Receivables:	
Brokers, dealers, and clearing organizations	35,041,540
Customers	3,434,204
Noncustomers	396,399
Commissions	221,276
Securities owned, at market value	569,528
Exchange memberships owned, at cost (market value of \$4,858,000)	7,000,000
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$5,047,107	1,369,523
Other assets	856,511
Total assets	<u>\$ 59,918,357</u>

Liabilities and Stockholder's Equity

Liabilities:

Payables:	
Brokers and dealers	\$ 13,807,729
Customers	9,010,147
Noncustomers	3,792,202
Securities sold, but not yet purchased, at market value	13,685
Bank loans	2,000
Payable to parent and affiliate	5,422,479
Accrued compensation	2,158,694
Accounts payable and other accrued expenses	1,687,573
Total liabilities	<u>35,894,509</u>

Stockholder's equity:

Common stock, \$1 par value. Authorized 15,000 shares; 1,000 shares issued and outstanding	1,000
Additional paid-in capital	62,326,338
Accumulated deficit	<u>(38,303,490)</u>
Total stockholder's equity	<u>24,023,848</u>
Total liabilities and stockholder's equity	<u>\$ 59,918,357</u>

See accompanying notes to financial statements.

LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Notes to Statement of Financial Condition

December 31, 2003

(1) Organization and Description of Business

LaBranche Financial Services, Inc., (the Company), a registered broker-dealer in securities under the Securities Exchange Act of 1934, is a member of the New York Stock Exchange (the NYSE) and other principal exchanges. The Company is primarily engaged in the business of execution and clearing of securities transactions. The Company is a wholly owned subsidiary of LaBranche & Co Inc. (the Parent), a Delaware corporation.

On February 18, 2004, the Parent announced an agreement in principle with the NYSE and the staff of the SEC, subject to final approval by the SEC, to settle pending investigations by the NYSE and the SEC of NYSE specialist trading activity.

(2) Significant Accounting Policies

(a) Basis of Presentation

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents consists of cash and highly liquid investments with original maturities of three months or less.

(c) Securities Transactions

The Company records, proprietary securities transactions on a trade-date basis. Customer's securities transactions are recorded on a settlement date basis.

(d) Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are reported as collateralized financing transactions and are recorded at contract amount plus accrued interest. Securities borrowed require the Company to deposit cash with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral provided or excess collateral refunded, as necessary.

(e) Exchange Memberships

The exchange memberships owned by the Company are carried at cost or, if an other than temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment.

LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Notes to Statement of Financial Condition

December 31, 2003

(f) Income Taxes

Deferred taxes are recognized based on the difference between the financial reporting and income tax basis of assets and liabilities using estimated income tax rates that will be in effect when such differences reverse.

(3) Cash Segregated in Compliance with Federal Regulations

Cash of \$3,959,414 has been segregated in a special reserve bank account for the benefit of the customers under rule 15c3-3 of the Securities and Exchange Commission.

(4) Fair Value of Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the Company to report the fair value of financial instruments, as defined. Substantially all of the Company's assets and liabilities are carried at fair value or contracted amounts, which approximate fair value.

(5) Securities Owned and Securities Sold, But Not Yet Purchased

Securities owned and securities sold, but not yet purchased represent listed equity securities quoted at market prices.

(6) Receivable from and Payable to Brokers, Dealers, and Clearing Organizations

The balances presented as receivable from and payable to brokers, dealers, and clearing organizations consist of the following at December 31, 2003: .

Receivable from brokers, dealers, and clearing organizations:	
Securities borrowed	\$ 30,891,150
Securities failed to deliver	1,527,790
Receivable from and deposits with clearing organizations	2,611,975
Other receivables from brokers and dealers	10,625
	<u>\$ 35,041,540</u>
Payable to brokers and dealers:	
Securities failed to receive	\$ 8,702,728
Other payables to brokers and dealers	5,105,001
	<u>\$ 13,807,729</u>

If the Company's counterparties to its securities loaned transactions have the right by contract or custom to sell or repledge the Company's pledged proprietary securities, then the Company will disclose these securities as "securities pledged to counterparties" on the statement of financial condition. As of

LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Notes to Statement of Financial Condition

December 31, 2003

December 31, 2003, there were no proprietary securities pledged related to the Company's securities loaned transactions included in securities pledged to counterparties.

(7) Receivable from and Payable to Customers

Receivable from and payable to customers represent amounts due from or to customers of the Company in connection with cash and margin securities transactions. Amounts receivable are collateralized by customers securities held by the Company and by others for delivery to the Company, the value of which is not reflected in the accompanying statement of financial condition.

Based on regulatory guidelines, the Company may pledge customer securities with a market value up to 140% of the debit balance in the customer's margin account to finance customer securities transactions, subject to certain regulatory guidelines.

(8) Regulatory Requirements

As a registered broker-dealer and member firm of the NYSE, the Company is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934. Under the alternative method permitted by the rule, the minimum required net capital shall be equal to the greater of \$1,500,000 or 2% of aggregate debit items, as defined. As of December 31, 2003, the Company's regulatory net capital of \$14,381,333 exceeded the minimum requirement by \$12,581,333.

As a clearing broker-dealer, the Company has elected to compute a reserve requirement for Proprietary Accounts of Introducing Broker-Dealers (PAIB Calculation), as defined. The PAIB Calculation is computed in order for correspondent firms to classify their assets held by the Company as allowable assets in the correspondent's net capital calculation. As of December 31, 2003, the Company's reserve requirement was \$4,212,013. The Company deposited \$6,010,000 of cash and securities in a special reserve bank account as of January 3, 2004, to comply with its December 31, 2003 requirement.

(9) Commitments and Contingencies

The Company has been the defendant, from time to time, to various claims and lawsuits in the ordinary course of its businesses. While the ultimate outcome of those claims and lawsuits which currently are pending cannot be predicted with certainty, we believe, based on our understanding of the facts of these proceedings and advice of counsel, that their ultimate resolution will not, in the aggregate, have a material adverse effect on our financial condition or results of operations.

(10) Income Taxes

The Company is included in the consolidated federal and combined state and local tax returns filed by the Parent. Under a tax sharing agreement with its Parent, the Company determines its income tax on a separate company basis. Under this agreement, the Company will not recognize tax benefit for current losses until they can be recovered on a separate company basis. Accordingly, the Company has recorded no current tax benefit for the year.

LABRANCHE FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of LaBranche & Co Inc.)

Notes to Statement of Financial Condition

December 31, 2003

The deferred tax asset of approximately \$15,646,800 relating primarily to NOL carryforwards has been fully offset with a valuation allowance since the Company believes that it is more likely than not such asset cannot be recovered on a separate company basis.

(11) Related Party Transactions

The Company is included in the LaBranche & Co. Retirement Plan (the Plan).

In August 2003 the Parent contributed capital in the amount of \$11,284,750, which was then used to pay-off principal of \$9,000,000 on the subordinated debt with the Parent and other payables to the Parent in the amount of \$2,284,750.

As of December 31, 2003, the payable to Parent and affiliate of \$5,422,479 consists primarily of operating expenses and intercompany payables related to stock-based compensation arrangements paid by the Parent and affiliate on behalf of the Company

(12) Financial Instruments with Off-Balance Sheet Risk and Concentration and Credit-Risk

In the normal course of business, the Company enters into various securities transactions as agent. The execution, settlement, and financing of those transactions can result in off-balance sheet risk and concentration of credit risk.

In the normal course of business, the Company's clearance activities involve settlement and financing of various customers' securities transactions on a cash or margin basis. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Company may be exposed to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur in their accounts.

The Company seeks to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors margin levels daily and pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions, when necessary.



KPMG LLP
345 Park Avenue
New York, NY 10154

Report on Internal Control Required by SEC Rule 17a-5

The Board of Directors and Shareholder
LaBranche Financial Services, Inc.:

In planning and performing our audit of the financial statements of LaBranche Financial Services, Inc. (the Company) (a wholly owned subsidiary of LaBranche & Co Inc.) as of December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the SEC), we have made a study of the practices and procedures followed by the Company including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
3. Complying with requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the board of governors of the Federal Reserve System; and
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SBC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is



subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003, to meet the SEC's objectives.

This report is intended solely for the information and use of the board of directors, management, the SEC, the New York Stock Exchange and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and, should not be used by anyone other than these specified parties.

KPMG LLP

February 20, 2004